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SHELL OIL COMPANY

Annual Report

1961

SHELL OIL COMPANY

50 WEST 50TH STREET · NEW YORK 20, N. Y.

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A. J. JOHNSON
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N. D. SMITH, JR.
Houston, Texas

Annual Report 1961

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Toronto, Ont.

J. E. HUGHES
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Toronto, Ont.

** a 50% owned affiliate*

TRANSFER AGENTS

Irving Trust Company......1 Wall Street, New York 15, N. Y.
The Bank of California National Association......400 California Street, San Francisco 20, Calif.
Continental Illinois National Bank and Trust Company of Chicago......231 South LaSalle Street, Chicago 90, Ill.
Notice of change of shareholder's address should be sent to one of the above transfer agents.

REGISTRARS

Morgan Guaranty Trust Company of New York......140 Broadway, New York 15, N. Y.
Crocker-Anglo National Bank......1 Montgomery Street, San Francisco 20, Calif.
Harris Trust and Savings Bank......115 West Monroe Street, Chicago 90, Ill.

HIGHLIGHTS OF THE YEAR

Financial

	1961	1960
Sales and Other Operating Revenue	$1,881,288,000	$1,827,832,000
Net Income	$ 140,358,000	$ 144,588,000
Net Income per Share	$2.32	$2.39
Cash Dividends per Share	$1.10	$1.10
Cash Income (net income plus write-offs)	$ 334,212,000	$ 345,608,000
Working Capital	$ 378,894,000	$ 316,893,000
Cash and Short Term Securities	$ 163,879,000	$ 118,418,000
Long Term Debt	$ 295,239,000	$ 200,002,000
Capital Expenditures	$ 269,914,000	$ 284,041,000

Operating

	1961	1960
Net Wells Drilled	781	806
Gross Crude Oil Produced—Barrels	138,817,000	135,420,000
Net Crude Oil Produced—Barrels	119,647,000	117,156,000
Crude Oil Intake—Barrels	190,433,000	183,377,000
Refined Products Sold—Barrels	223,094,000	211,318,000
Chemical Products Sold—Short Tons	992,000	1,040,000
Number of Employees at End of Year	35,586	38,290
Salaries, Wages and Employee Benefits	$ 352,152,000	$ 346,262,000

SHELL OIL COMPANY
50 WEST 50TH STREET
NEW YORK 20, N. Y.

March 19, 1962

TO THE SHAREHOLDERS:

WE SUBMIT HEREWITH a review of the operations of Shell Oil Company and its subsidiaries for the year 1961, together with the related financial statements.

The year 1961 was difficult for the domestic petroleum and chemical industries, and the effects of the generally unfavorable conditions are apparent in your Company's earnings.

Consolidated net income after taxes amounted to $140.4 million, or $2.32 per share, compared with $144.6 million, or $2.39 per share, in 1960. Cash dividends were $1.10 per share, or a total of $66.6 million, the same as in 1960.

During the year Shell increased its volume of refined product sales by substantially more than 5%. However, because of a decline in the sales revenue of Shell Chemical Company and because of depressed oil prices, particularly of gasoline on the Pacific Coast, the Company's sales and other operating revenues, although reaching a record high of $1,881.3 million, increased only 3% over those of 1960.

In August 1961 the Company sold $200 million of 4⅝% Sinking Fund Debentures. The proceeds were used to retire the $100 million principal amount of the Company's 4.5% bank notes and to provide funds for general corporate purposes.

Capital expenditures totaled $269.9 million in 1961, about $14 million lower than 1960. Of this sum, 67% was devoted to drilling and production.

In exploration and production, the Company's performance was very satisfactory. New highs were achieved in the volumes of oil and gas added to Shell's estimated ultimate recovery. These additions were sufficient to replace record production of liquid hydrocarbons and gas and, at the same time, to add to our net developed reserves 122 million barrels of liquid hydrocarbons and 655 billion cubic feet of gas. At the year-end, estimated net developed reserves of crude oil, condensate and gas plant liquids were at an all-time high of more than 1.8 billion barrels. Net developed natural gas reserves at the end of 1961 were eight trillion cubic feet.

The Company's refineries processed 190.4 million barrels of crude oil in 1961, an increase of 7.1 million barrels over 1960. Major construction programs, particularly at the Wood River, Illinois, refinery, were designed to improve product quality and increase efficiency. During the year, Shell Chemical Company put major new manufacturing facilities into operation. The associated start-up costs had a depressing effect on earnings.

Also in 1961 Shell took its first step into the gas transmission business by acquiring a substantial interest in a projected pipe line designed to carry natural gas from northwestern Oklahoma to St. Louis.

Consideration is being given to reclassifying the Company's interest in Shell Oil Company of Canada, Limited, and distributing that interest to Shell Oil Company shareholders. This action would allow future moves whereby the investment by Canadian citizens in Shell of Canada can be facilitated.

Concerning prospects for the future, it can be expected that keen competition will continue in the industry for some time, and we see no indications of any early improvement in over-all refined product prices. The industry at large is having to adjust to a lower rate of growth in demand for oil products against a background of excess capacity in all phases of operations. As long as the industry has substantial excess capacities, we can expect chronic oversupply with vigorous competition in the market place.

It is our view that under present circumstances satisfactory performance by your Company can best be assured through the most efficient and imaginative use of its manpower and materials. It is essential that we match the best that competition can offer. Throughout 1961 Shell increased its basic strength at all levels as it moved vigorously to improve its performance. It will continue to do so.

We view 1962 with confidence. This year is Shell's fiftieth in the oil business in the United States. It is our intention to devote all our efforts to making Shell's fiftieth year the best in the Company's history. Your Company's achievements in the past and its faith in the future are due largely to the loyal and effective service of Shell people, to whom we express our thanks.

J. H. LOUDON
Chairman of the
Board of Directors

MONROE E. SPAGHT
President

REVIEW OF 1961 OPERATIONS

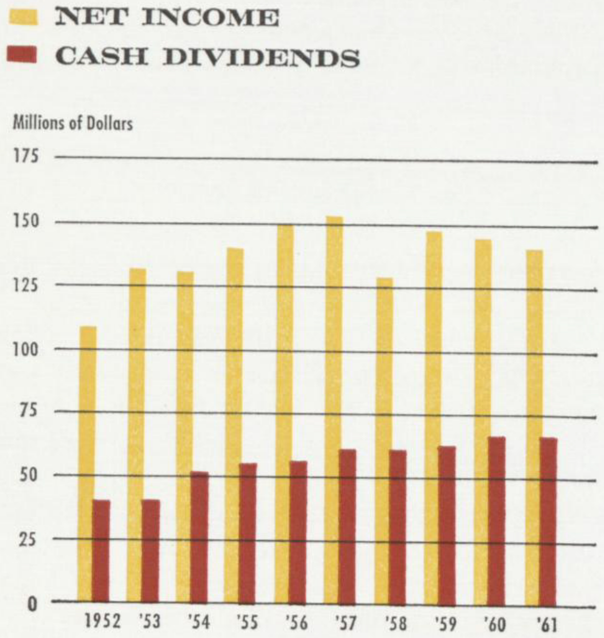
Financial

Net income of $140.4 million for 1961 was equivalent to $2.32 per share, compared with $144.6 million or $2.39 in 1960. Cash dividends in 1961 amounted to $1.10 per share, or a total of $66.6 million, the same as in 1960.

Revenues in 1961, up 3% from the preceding year, were the highest in the Company's history, reflecting record sales of refined products and natural gas. However, as the business recession continued into 1961, chemical sales fell below the peak of the earlier year.

Crude oil production reached a new high, primarily because of a sustained exploration and development program, and despite the fact that Texas and Louisiana allowables were lower than in 1960.

Unfortunately, the gains were more than offset by depressed prices, mainly of automotive gasoline and some chemicals. Industry-wide, the prices of automotive gasoline were lower in 1961 than at any other time in the last nine years.



Funds derived from operations were $334.2 million in 1961, a decrease of $11.4 million from the previous year.

In August the Company sold $200 million of 4⅝% Sinking Fund Debentures, a portion of the proceeds being used to retire $100 million in notes payable to a bank. The debentures provide for sinking fund payments commencing in 1967, with annual payments of $5 million from 1967 through 1971, $10 million from 1972 through 1981, and $15 million from 1982 through 1985.

Capital expenditures totaled $269.9 million, or $14.1 million less than for 1960. In addition, $73.3 million was expended for oil and gas exploration activities other than drilling. This expense was charged to income. The 1961 capital spending included $32 million for new synthetic rubber and thermoplastics plants. A summary of expenditures in 1961, compared with those in 1960, follows:

	1961	*1960*
	(Millions)	
Drilling and production	$179.7	$197.6
Oil refineries	17.3	29.1
Chemical plants	39.8	18.0
Pipe lines and other transportation facilities	5.6	6.6
Marketing and miscellaneous facilities	27.5	32.7
Total capital expenditures	269.9	284.0
Exploration expenses	73.3	69.9
TOTAL	$343.2	$353.9

At December 31, 1961, net working capital amounted to $378.9 million, which was $62.0 million higher than at the end of last year. Cash and short-term securities totaled $163.9 million.

SOURCE and DISPOSITION OF FUNDS

SOURCE OF FUNDS	1961	1960
	(Millions)	
Sales and other revenues*	$2,247.6	$2,178.5
Costs and expenses excluding property provisions	1,913.4	1,832.9
Funds left from operations (cash income)	334.2	345.6
Net increase in long term debt	95.2	66.5
TOTAL	$ 429.4	$ 412.1
DISPOSITION OF FUNDS		
Capital expenditures	$ 269.9	$ 284.0
Dividends paid	66.6	66.6
Advances to Shell Oil Company of Canada, Limited	27.5	43.5
Other items, net	3.4	.2
Working capital increase	62.0	17.8
TOTAL	$ 429.4	$ 412.1

*Includes consumer taxes, dividends, interest and other income.

Company-wide efforts to streamline operations, improve efficiency, and reduce costs were intensified in 1961. Data processing centers were established at Tulsa, Oklahoma, and Menlo Park, California. These centers, together with the center in New York, using the most advanced types of data processing and computing equipment, will permit centralization of a large part of the Company's accounting and information operations, and they will provide service on technical problems for which large capacity computers are needed. This program will begin to produce benefits in 1962.

Exploration and Production

THE RESULTS of the Company's exploration and development activities in 1961 were gratifying, surpassing in many respects those of any other year in Shell's history. By the year-end it had been found that sources of future production were sufficient not only to replace the record 1961 production of 132 million net barrels of liquid hydrocarbons and 412 billion net cubic feet of natural gas, but also to increase the reserves in these categories substantially. Estimated developed reserves at the year-end were at an all-time high of 1.8 billion net barrels of crude oil, condensate and gas plant liquids, and 8 trillion net cubic feet of gas.

Exploration programs resulted in a significant discovery of gas-condensate on jointly held properties in the McAllen Ranch Area of Southwest Texas. Two important oil discoveries were made adjacent to Shell's holdings in Crook County, Wyoming, and gas was discovered on Shell properties at Hobart Ranch in the Texas Panhandle and at Pawnee in Southwest Texas. The Company has strong lease positions in all these areas.

Most of the additions to reserves of both oil and gas were made during the development of fields discovered earlier. The most important of these additions were made in the Anadarko Basin in Oklahoma and the Texas Panhandle; at Hennessey in North Central Oklahoma; at Brown Bassett in West Texas, Bryans Mill in East Texas, and Conley in North Texas; at Vacuum in southeastern New Mexico; at South Pass Block 27, Eugene Island Block 100 and West Delta Block 30 in the Louisiana offshore waters; and at Sligo in North Louisiana. Early in the year, near the Sligo Field the Company purchased two undeveloped tracts totaling 3,624 acres, on which it drilled 31 wells. These now produce about 1,950 barrels of oil and 37 million cubic feet of gas per day.

In the Louisiana offshore area the Company drilled 91 wells during 1961, of which 45 were completed as producers in the South Pass Block 27 Field, where the Company's production now averages 26,000 barrels of oil per day from 260 wells. Shell continued to maintain a leading position in Louisiana offshore production, averaging 73,000 barrels of oil per day out of the industry total of 260,000 barrels per day. In 1960 the corresponding figures were 64,000 barrels of oil per day out of the industry total of 213,000 barrels per day.

The Company drilled 99 net exploratory tests during the year, resulting in 27 discoveries, compared with 137 drilled in 1960 with 36 discoveries. It also drilled 682 net development wells which resulted in 607 oil and gas wells and 75 dry holes. These figures compare with 669 net development wells drilled in 1960, of which 589 were oil and gas wells and 80 were dry holes.

During 1961 work was continued on the development and improvement of techniques and equipment for the drilling of offshore wells.

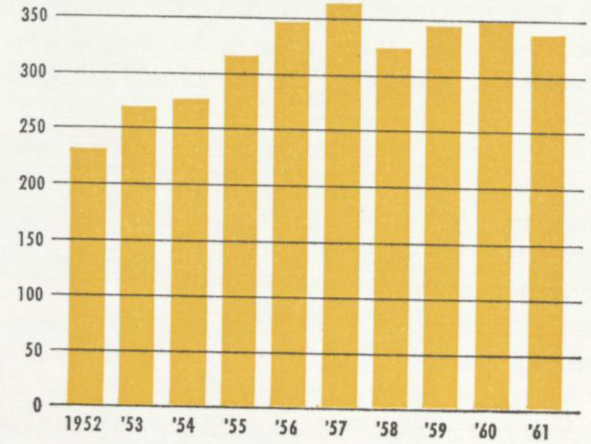
Total crude oil production in 1961, including royalty oil, averaged 380,000 barrels per day, compared with 370,000 barrels per day during 1960, despite continued severe prorationing in many fields. The production increase occurred mainly as a result of drilling in Louisiana.

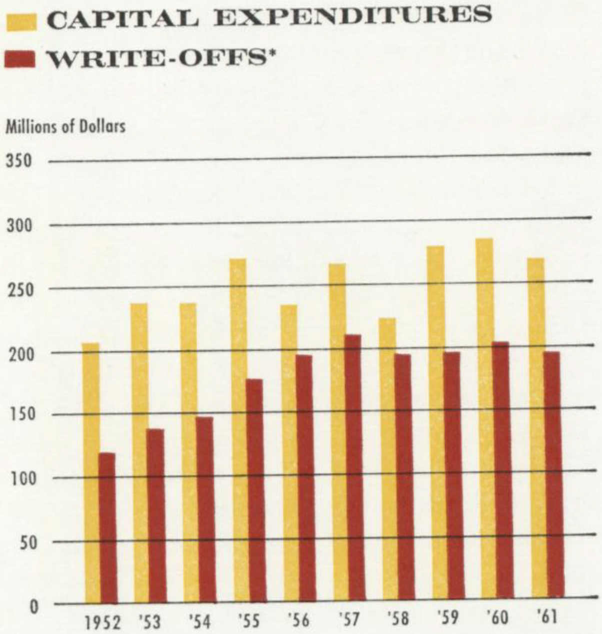
Among the more important producing properties purchased by the Company during the year were those of Bishop Oil Company and its subsidiary, located in California and western Canada.

Sales volumes of natural gas increased 6% over 1960. Gas deliveries started under new contracts in 1961 totaled 40 million cubic feet daily, compared with 100 million cubic feet daily during 1960. At year-end Shell was preparing to deliver an additional 180 million cubic feet daily under contracts negotiated during 1961 and prior years. Thirty-five per cent of this amount awaited construction of facilities, and the remaining 65% was involved in regulatory procedures. The sale of 94 million cubic feet daily (Shell's 75% share) from the Elk City Hoxbar Unit in Oklahoma, mentioned in the 1960 Annual Report, was in this latter category.

Shell in 1961 secured a substantial minority interest in the Oklahoma Illinois Gas Pipeline Company, which was formed for the purpose of constructing and operating an interstate gas trans-

■ **CASH INCOME**





* Depreciation, depletion and amortization

mission system from northwestern Oklahoma to the St. Louis market area. Before the line may be constructed, it will be necessary to obtain a Certificate of Public Convenience and Necessity from the Federal Power Commission. It is anticipated that this will be sought early in 1962.

Also at the year-end, Shell was still involved in hearings being held by the Federal Power Commission in its attempt to evaluate the reasonableness of the prices in all contracts under which Shell sells gas for transmission across state lines.

Major extensions were completed at six natural gas processing plants to increase the gas processing capacity and improve the efficiency of recovery. Two new gas processing plants were put into operation in South Texas (North Rincon and Sealy), as were facilities for the recovery and sale of ethane at the Sheridan, Texas, plant. Three new plants, being constructed at Yscloskey in Southeast Louisiana, Bryans Mill in East Texas, and at Person in South Texas, will be completed during the first half of 1962.

Manufacturing

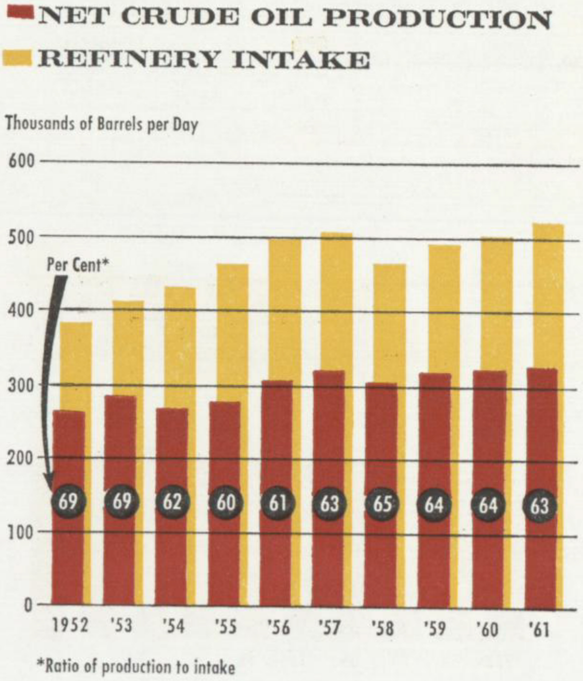
DURING THE YEAR the Company's six refineries processed 190.4 million barrels of crude oil, an increase of 7.1 million over 1960. This throughput represents 88% of rated crude oil distilling capacity. All refineries operated normally throughout the year, except for three days in September when Hurricane Carla forced the Houston, Texas, refinery to shut down.

Emphasis in construction was on facilities for improving product quality and increasing operating efficiency. At the Wood River, Illinois, refinery, the 25,000 barrel-per-day catalytic reformer and its feed hydrotreater came on stream in April. This unit incorporates significant research advances that improve the refinery's ability to produce high octane motor gasoline components and aromatics such as benzene and toluene. As part of the continuing program for producing superior quality distillate fuels, Shell began construction of a distillate hydrotreater at the Anacortes, Washington, refinery. This plant will further improve the quality of 25,000 barrels per day of aviation turbine fuel and diesel and furnace oil components. Distillates are currently hydrotreated at the Houston, Wilmington (California), and Wood River refineries. The Company's second lubricating oil hydrotreater, which improves the quality and yield of the finished oils, was completed in July at the Martinez, California, refinery. Also at Martinez, construction was begun on a new plant for the manufacture of Shell's Microgel® greases. At the Wood River Refinery, the 260,000-barrel propane cavern, which was completed in March, was filled with propane during the summer for shipment in the winter.

Several projects improving the manufacture and distribution of asphalt were finished during the year. A vacuum flasher and associated equipment for the manufacture of improved paving asphalt and premium quality industrial asphalts were completed at Martinez. In a related development, an arrangement was made with an intermediate processor and a paper products manufacturer for Martinez to supply asphalt fluxes directly through a hot line for conversion to a variety of industrial asphalt products. This complex is scheduled for operation early in 1962. At Wood River, facilities for improving the quality of paving grade asphalt were completed in time for the 1961 season.

Near the end of the year a plant was completed at Wood River for the production of feed stock for Shell Chemical Company's 80-million-pound-per-year polyisoprene plant near Marietta, Ohio.

Research has been directed to the support and development of fuels and lubricants and to exploration of new refining processes. A modern Heating Fuels Laboratory was completed at Wood River. Also, a new "test track on rolls," put into operation at the Wood River Research Laboratory, permits all-weather testing of motor gasolines and lubricants.



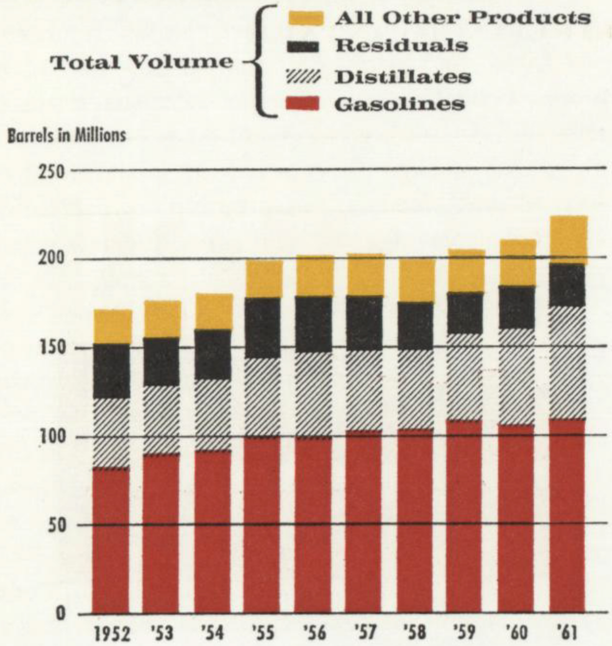
*Ratio of production to intake

Marketing

OIL MARKETING industry-wide in 1961 was characterized by a slight rise in volume and falling prices, and although Shell had an increase in volume larger than that of the industry, the Company also felt the effect of declining prices. The volume of Shell's refined product sales was over 5% greater in 1961 than in 1960, considerably better than the industry's increase of about 1%. However, Shell's revenue from total refined products increased only 3% as the average refined product price fell over 1% and the average gasoline price dropped 5%.

In the postwar period through 1956, the United States oil industry was marked by rapid growth, a limited surplus of refinery capacity, and consequent strong prices which reached a peak early in 1957. For the last five years, demand has grown more slowly and there has been excess capacity in all branches of the industry. The results have been severe competition and declining prices, especially in gasoline.

Despite the relatively weak growth in demand industry-wide, Shell increased both its sales volume and its share of the market in its most important product lines. The sales volume of automotive gasoline was approximately 6% greater than in 1960 because of expansion into new territories, construction of new service stations, and acquisition of new jobber and consumer accounts;



REFINED PRODUCTS SALES

and because of aggressive advertising, wider use of credit cards, and improved promotional and training programs for dealers and jobbers.

In another important group of products, aviation fuels, Shell maintained its leadership as a supplier for commercial aviation. The Company's sales of jet fuel increased 50% as jets continued to replace piston aircraft. This trend accounted for a decrease of nearly 8% in sales of aviation gasoline. The result was that aviation fuels together showed an increase of 16%.

During the year the Company made a number of changes designed to improve the organization and reduce the cost of marketing activities. Thus, a number of marketing divisions were merged with other division organizations. The Albany, Indianapolis, Minneapolis and Sacramento divisions were combined with others, and plans were announced for similar consolidation of the Detroit Division. As a result of these mergers, Shell's marketing will be carried out in 12 divisions, of which 5 will be in the Eastern Region, 3 in the Central Region, and 4 in the Western Region. Routine accounting work, including the processing of credit card billing, is being transferred to the new data centers at Menlo Park, California, and Tulsa, Oklahoma. Significant savings were also achieved through the consolidation of marketing and pipe line activities at pipe line terminals.

Shell Chemical Company

TOTAL SALES REVENUE declined 6% from the record levels established in 1960, although gains were recorded during the fourth quarter. The year was one of intense competition aggravated by oversupply and price weakness in some lines.

Industrial chemical sales revenues in 1961 were below 1960 levels, although volumes were about the same. Industry-wide overproduction of several important products, particularly acetone and glycerine, led to lower prices and reduced revenues. A general firming of the markets occurred in the last quarter, lagging behind but following the trend of the general economy. Substantial non-recurring start-up costs associated with new manufacturing facilities were incurred during the year.

Increased penetration of the textile market for hydrogen peroxide is expected as a result of marketing innovations established late in 1961. PENToXONE and PENToXOL, Shell's trademarks for two new high-boiling solvents, were more widely accepted. Sales development work was undertaken on new and existing chemicals for textile finishing and applications related to food and food processing.

Synthetic rubber and styrene sales revenues were below the record levels of 1959 and 1960, as consuming industries were slow to recover from the recession and were affected by strikes. Deterioration of export markets for general purpose synthetic rubber continued as one country after another moved toward self-sufficiency in production.

Throughout 1961 Shell continued to be the world's sole supplier of polyisoprene rubber, and steady progress was made in introducing the product despite the weakest natural rubber market in years. The Shell product, now widely known as Shell Isoprene Rubber, has been adopted for use in many products other than tires, such as footwear and molded goods. These uses represent continuing business with a variety of consumers. Construction of the 80-million-pound-per-year polyisoprene rubber plant at Marietta, Ohio, was nearly finished at the year-end.

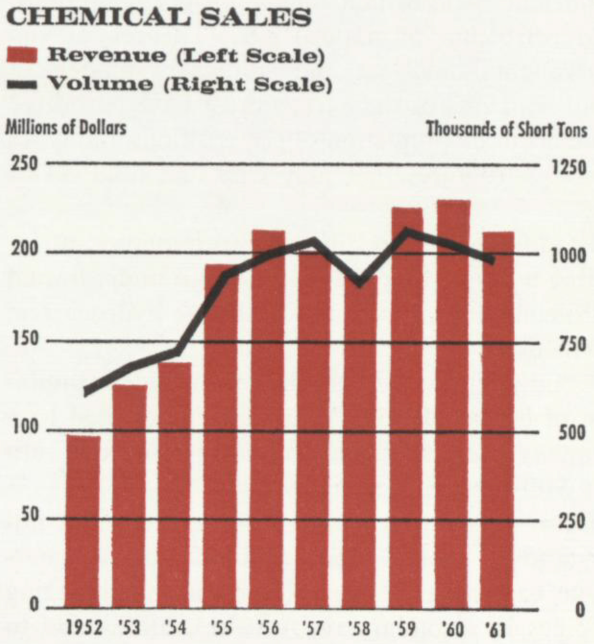
Product development in this important new field resulted in the commercialization of three significant polyisoprene derivatives: a premium grade for applications affecting food; a product extended with Shellflex oil to compete with the cheaper grades of natural rubber used in tires; and polyisoprene latex, closely resembling the milky fluid from rubber trees, for use in a variety of rubber articles. These innovations have been well received.

Agricultural chemical sales for 1961 continued on a satisfactory level despite reduction of acreage planted under federal farm programs and reduced planting due to bad weather in the cotton belt. An important reason for the satisfactory sales level was that farmers intensified their pest control programs in order to assure greater crops per acre. The uses for Vapona® Insecticide continued to expand during the year, and government approval was received for the use of Vapona pressurized household sprays. A new highly active chlorinated insecticide, Telodrin®, was added to Shell's line of products for test marketing in 1961. This insecticide appears particularly promising against the alfalfa weevil. Another interesting addition to the Shell product line in 1961 was Verdan®, a senescence inhibitor which, when applied to fresh leafy vegetables at harvest time, prolongs freshness much the same as refrigeration.

An oversupply of nitrogen fertilizer on the West Coast has kept prices at a depressed level and prolonged the aggressive competition of recent years. Other factors adversely affecting fertilizer sales in 1961 were government delays in announcing wheat acreage allocations; the Department of Agriculture's feed grain program, which idled 185,000 acres of crop land; and diseases which seriously decreased wheat yields in the Pacific Northwest. Nevertheless, total nitrogen sales were approximately equal to those of 1960. Moderate price increases were made late in the 1961 season on ammonia and certain solid fertilizers.

In the field of plastics and resins, Epon® resins continued their growth trend despite a decreasing export market. Greater utilization of these products for road and floor surfacing and in the electrical industry contributed substantially to the growth. A new polymer, Eponol® resin, which is a thermoplastic Epon resin used for metal coating, was introduced during the year.

In line with the intention to be a major supplier of plastics, Shell expanded its line of products to


CHEMICAL SALES

include polyethylene and polypropylene. In anticipation of its own production of polypropylene, the Company gained early entry into the thermoplastics market by selling polypropylene and polyethylene purchased from others. Sales of polystyrene, the other product in Shell's thermoplastics line, made some progress; however, an extremely competitive condition, aggravated by oversupply, contributed to less favorable results than were anticipated.

Construction was begun on the new polypropylene plant with its research center and plastics technical service laboratory at Woodbury, New Jersey. This unit, designed for an initial production of 80 million pounds per year, is scheduled to go on stream in the third quarter of 1962.

Shell Development Company

THE COMPANY'S RESEARCH in 1961 continued to seek new knowledge in order to broaden understanding and improve performance in all branches of Shell's activity.

In the field of exploration, better understanding of the processes which generate hydrocarbons and transport and concentrate them into oil or gas fields has aided in assessing the oil and gas potential of outlying and sparsely drilled sedimentary basins. Continued study of sandstone and carbonate sediments now being formed in rivers and oceans has improved the scientist's understanding of ancient rocks which, under proper conditions, hold petroleum or natural gas. Theoretical and experimental analyses and studies of models of small segments of the earth's crust have permitted more accurate prediction of the positions and types of rock structures that may trap and hold oil or gas.

Production research has led to a method of injecting a gas or by-product fluid into underground petroleum reservoirs so as to increase hydrocarbon production.

Continued research on physicochemical stimulation of low-production wells has contributed to a company-wide intensification of effort on this subject with gratifying results.

Other production studies have led to better understanding of the detrimental effects of waterborne bacteria that cause corrosion and plugging of pipes in secondary recovery operations and to better means of controlling the bacteria. Aqualin®, Shell Chemical Company's aquatic herbicide, has been found most effective for the purpose, and this use offers an attractive new market for the product.

Research efforts in the fields of measurement, control, communication, and data handling have produced a down-the-hole television system, leads on ways of telemetering information from the bottom of a well that is being drilled, and a means of transmitting electrical signals along buried pipe lines for such purposes as communication, remote control, alarm, and data transmission.

To aid in studies of the highly complex process of combustion, so basic to Shell's business, the Company has installed a second shock tube at Emeryville Research Center specially designed to reveal the course of the various combustion reactions in detail.

As the increasingly heavy loading of machinery has placed greater demands on lubricants, studies have been undertaken to define more clearly the problems involved, to learn how the highest loads are concentrated, and what maximum temperatures are reached. Together with continued research on oil additives, these efforts provide a basis for the development of tomorrow's lubricants.

The improvement of refinery processes to provide adequate quantities of the best products at the lowest possible cost continued to be a major research objective. Shell's liquid phase isomerization process has been adapted to production of the valuable high-antiknock ingredient isopentane and has been tested successfully on plant scale. Commercial plant design was undertaken with a view toward early use.

A more economical process for the removal of acid gases from natural gas has been developed. It will be employed in treating Canadian natural gas supplies, high in hydrogen sulfide, which are to be sent by pipe line from a new plant of Shell of Canada to the Pacific Coast market in the United States.

A strong effort continues to expand the use potentialities of acrolein through the development of derivatives.

Polypropylene development continued through the final phases of plant design, the standardization of grades for varied applications, and the development of inhibitor systems that insure outstanding stability.

New curing agents for Epon resin coatings were developed to provide the first stable single-package formulation combining rapid cure with the extended service life of unmodified epoxy resin. A special epoxy resin of high flexibility also was perfected for use in coating wood, fabrics or leather.

A new product, Ciodrin® Insecticide, was developed for experimental sales in 1962. It is expected to find an important place in the livestock industry because it is highly effective against a wide range of external insect pests, yet safe to animals.

Shell Pipe Line Corporation

SHIPMENTS THROUGH TRUNK LINES operated by Shell Pipe Line Corporation in 1961 were slightly greater than in 1960. About half the total shipments were made through trunk lines owned and operated by the Company and the balance through lines operated under agreements with others.

Early in 1961 Shell Pipe Line began to move crude oil from North Dakota through a pipe line extension, making that state the thirteenth in the Company's operating territory. The other states are Arizona, California, Colorado, Illinois, Louisiana, Missouri, Montana, New Mexico, Oklahoma, Texas, Utah and Wyoming.

New trunk line construction in 1961 totaled about 100 miles. The largest addition was a 34-mile, 8-inch line serving the new Bryans Mill plant in Northeast Texas.

The program of automation and modernization, which was continued through 1961, has resulted in lower operating costs and more efficient use of manpower. During the year the Company initiated the addition of 215 miles to the microwave radio system operated by Shell Communications, Inc., and used in replacement of wire lines for communications and control of operations in Shell Pipe Line facilities. The microwave system is now more than 2,000 miles long.

The Company's facilities for pipe line technical development work were substantially expanded and improved with the completion of the new laboratory and a major pilot pipe line installation in Houston, Texas.

Personnel and Industrial Relations

AT THE END of the year the total number of employees on the payroll was 35,586, or 7% less than the corresponding number for the previous year, and about 12% below the peak period of employment in 1957.

The total wages, salaries and employee benefits during 1961 equalled $352.2 million, an increase of $5.9 million, as the reduction in manpower

HEAD OFFICES

Shell Oil Company
New York, N. Y.

Shell Development Company
New York, N. Y.

Shell Chemical Company
New York, N. Y.

Shell Pipe Line Corporation
Houston, Texas

Shell Oil Company of Canada, Limited
Toronto, Ont.

PRINCIPAL OPERATING HEADQUARTERS

Exploration and Production Areas

Calgary, Alta.
Denver, Colo.
Houston, Texas
Los Angeles, Calif.
Midland, Texas
New Orleans, La.

Refineries and Chemical Plants

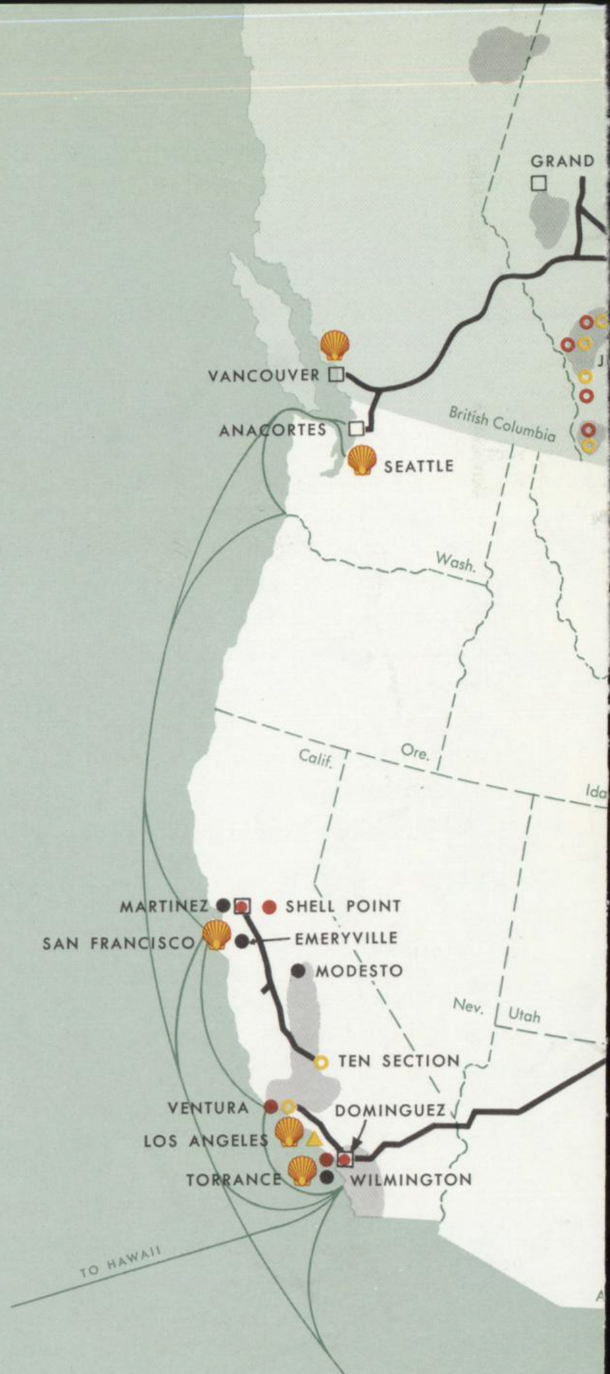
Anacortes, Wash.
Denver, Colo.
Dominguez, Calif.
Grand Prairie, Alta.
Houston, Texas
Marietta, Ohio
Martinez, Calif.
Montreal, Que.
Norco, La.
Shell Point, Calif.
Torrance, Calif.
Vancouver, B. C.
Ventura, Calif.
Wilmington, Calif.
Winnipeg, Man.
Woodbury, N. J.
Wood River, Ill.

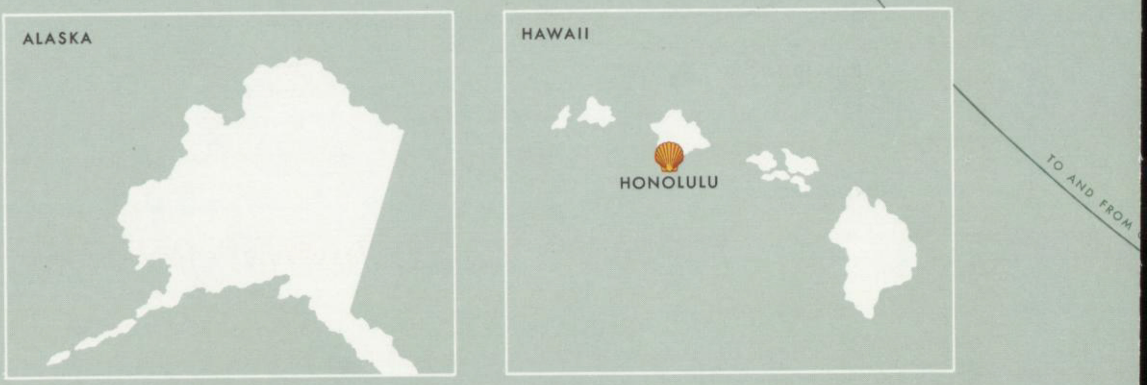
Marketing Divisions

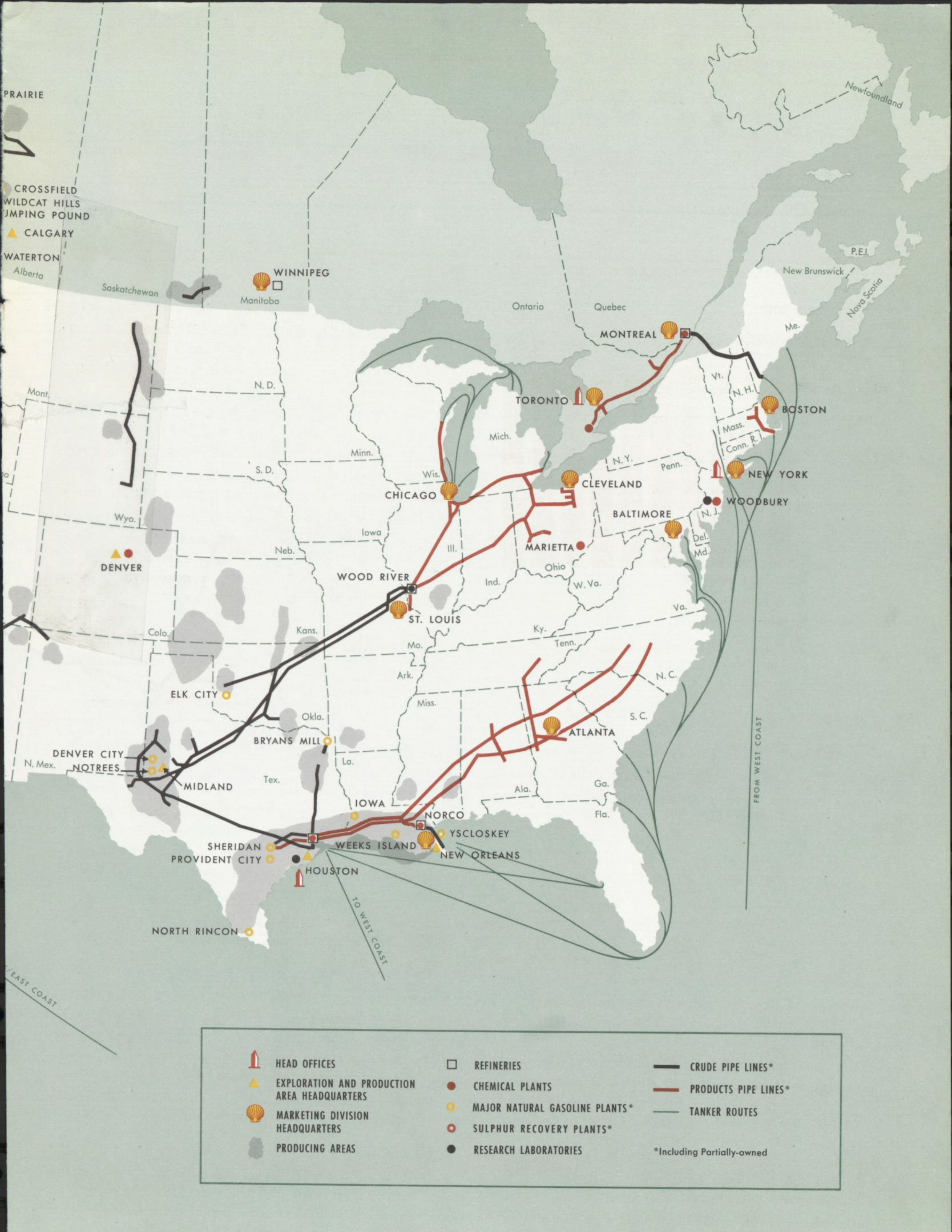
Atlanta, Ga.
Baltimore, Md.
Boston, Mass.
Chicago, Ill.
Cleveland, Ohio
Honolulu, Hawaii
Los Angeles, Calif.
Montreal, Que.
New Orleans, La.
New York, N. Y.
St. Louis, Mo.
San Francisco, Calif.
Seattle, Wash.
Toronto, Ont.
Torrance, Calif.
Vancouver, B. C.
Winnipeg, Man.

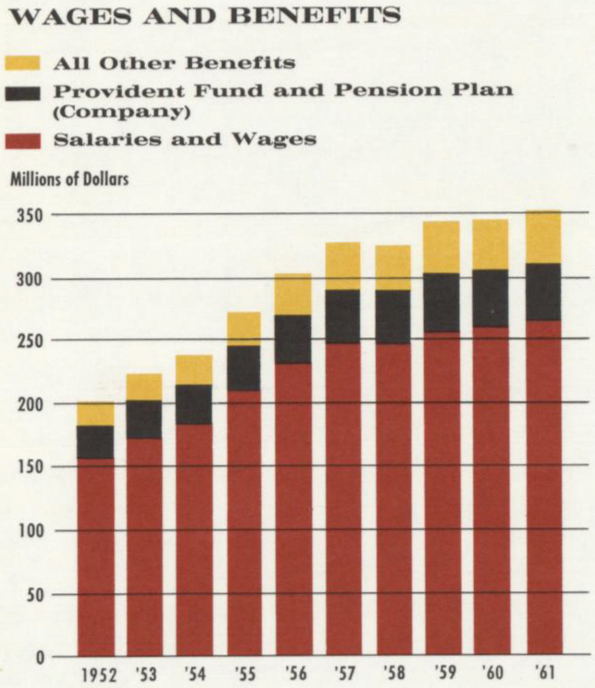
Research Laboratories

Emeryville, Calif.
Houston, Texas
Martinez, Calif.
Modesto, Calif.
Torrance, Calif.
Woodbury, N. J.
Wood River, Ill.






PRAIRIE
CROSSFIELD
WILDCAT HILLS
JMPING POUND
CALGARY
WATERTON
Alberta
Saskatchewan
WINNIPEG
Manitoba
Ontario
Quebec
Newfoundland
P.E.I.
New Brunswick
Nova Scotia
Me.
MONTREAL
Vt.
N.H.
TORONTO
BOSTON
Mass.
Conn.
R.I.
Mont.
N.D.
Mich.
N.Y.
Minn.
S.D.
Wis.
Penn.
NEW YORK
CHICAGO
CLEVELAND
WOODBURY
Wyo.
BALTIMORE
N.J.
Iowa
Del.
Md.
DENVER
Neb.
Ill.
MARIETTA
Ohio
WOOD RIVER
Ind.
W. Va.
Va.
ST. LOUIS
Colo.
Kans.
Ky.
Mo.
Tenn.
N.C.
Ark.
ELK CITY
Miss.
S.C.
Okla.
ATLANTA
BRYANS MILL
DENVER CITY
NOTREES
N. Mex.
La.
MIDLAND
Tex.
Ala.
Ga.
FROM WEST COAST
IOWA
NORCO
Fla.
SHERIDAN
YSCLOSKEY
WEEKS ISLAND
PROVIDENT CITY
NEW ORLEANS
HOUSTON
TO WEST COAST
NORTH RINCON
EAST COAST
HEAD OFFICES
EXPLORATION AND PRODUCTION AREA HEADQUARTERS
MARKETING DIVISION HEADQUARTERS
PRODUCING AREAS
REFINERIES
CHEMICAL PLANTS
MAJOR NATURAL GASOLINE PLANTS*
SULPHUR RECOVERY PLANTS*
RESEARCH LABORATORIES
CRUDE PIPE LINES*
PRODUCTS PIPE LINES*
TANKER ROUTES
*Including Partially-owned



which continued through the year was insufficient to offset the effect of the general increase in wage and salary levels made in December 1960.

During 1961, 1,403 employees retired from active service. This brought to 7,299 the total number of employees retired since 1938, when the original Shell Pension Plan was established.

Late in the year your Company announced that as of January 1, 1962, a new feature of the Shell Provident Fund—the Shell Stock Fund—would be made available to employees. This new provision enables employees having five or more years of accredited Company service to direct that part or all of the Company's future contributions made on the employees' behalf to the Shell Provident Fund be invested in the common stock of Shell Oil Company purchased at prevailing market prices. Such employees will thus be given a new means of participating in the ownership of the Company. Of the eligible employees, 64% have elected to participate in this Stock Fund.

Directorate and Executive

It is with deep regret that your Directors record the death during the year of their colleagues, Mr. Gayer G. Dominick and Mr. Cason J. Callaway. Mr. Dominick had been a member of the Board from 1937 until 1939 and from 1945 until his death. He had also rendered valuable service as a member of the Executive Committee since 1949. Mr. Callaway had been a Director since 1949. Their judgment and counsel will be greatly missed.

In November the Board of Directors adopted a retirement policy which provides that Directors who have no other affiliation with the Company and who attain the age of 70 will henceforth voluntarily refrain from standing for reelection; provided that present Directors who have already reached the age of 70 will voluntarily refrain from being candidates if they have reached their 75th birthday.

As a result of the Board's adoption of this policy, Messrs. Lewis L. Clarke, Forsyth Wickes and Jerome C. Hunsaker will not stand for reelection at the Annual Meeting of Shareholders in April 1962. Mr. Clarke, who was a member of the original Board of Directors of Shell Union Oil Corporation, has been a Shell Director since 1922. Mr. Wickes was counsel at the creation of the Company, served as a Director in 1933 and again from 1940 to the present, and has also served as a member of the Executive Committee since 1951. Mr. Hunsaker, formerly head of the Department of Mechanical and Aeronautical Engineering at Massachusetts Institute of Technology, joined the Board in 1946. The Directors express their appreciation to these men for their long and outstanding service.

In order to retain their interest in and contact with the business affairs of the Company, the retiring Directors may be appointed by the Board to the honorary position of Emeritus Director. As such, they will not have the duties or the responsibilities of Directors.

Effective June 22, 1961, Mr. F. J. Stephens resigned as a Director of the Company to accept the appointment as Chairman of the Board of The "Shell" Transport and Trading Company, Limited. Mr. H. Wilkinson, a Managing Director of the Royal Dutch/Shell Group of Companies, was elected to fill this vacancy. Mr. Wilkinson was a member of the Board from 1939 to 1943 and from 1945 to 1953.

Mr. D. B. Kemball-Cook, Executive Vice President and Director, who has been in charge of the Company's Exploration and Production activities, has assumed responsibility for the direction of Marketing, Transportation and Supplies, and Manufacturing, and for liaison with Shell Pipe Line Corporation. He will also act as the President's deputy.

Mr. J. E. Clark has succeeded Mr. Kemball-Cook as Executive Vice President in charge of Exploration and Production, and has been elected a Director. Mr. Clark joined the Company in 1932 and has held various positions in the Exploration and Production organization, the last being that of Vice President-Production. Mr. B. P. Eastin, a former Director of Production Research with Shell Development Company, has been named Vice President-Production.

In December, Mr. J. G. Jordan, Vice President-Marketing, and Mr. E. H. Walker, Vice President-Personnel and Industrial Relations, retired after 36 and 30 years of service, respectively.

Mr. P. C. Thomas, formerly Vice President-Marketing, Central Marketing Region, has succeeded Mr. Jordan as Vice President-Marketing. Mr. Thomas has been in the Marketing organization since 1932. Mr. J. H. Hall, who also joined Shell in 1932 and was until recently General Manager, Head Office Marketing, has succeeded Mr. Thomas as Vice President-Marketing, Central Marketing Region.

Mr. John C. Quilty, who has served in the Legal Department and in the Industrial Relations Department for 27 years, was elected Vice President-Personnel and Industrial Relations to succeed Mr. Walker.

Shell Oil Company of Canada, Limited

SHELL OIL COMPANY OF CANADA, LIMITED, is a fully integrated company owned 50% by Shell Oil Company. Its accounts and statistics, and those of its subsidiary companies, are not consolidated in this Report.

Canada in 1961 experienced a recovery from the extended effects of the 1960 recession. Demand for petroleum products increased by more than 4% over 1960 levels. For 1962 it is anticipated that over-all demand will increase again by more than 4% but that competitive market conditions will continue to depress prices.

The industry's production of crude oil and other liquid hydrocarbons showed an increase of 18% over year-ago levels. This increase was brought on, in part, by the National Oil Policy announced by the Canadian government in February. Under this policy the target for the Canadian oil industry was set at 640,000 barrels per day, and this was accomplished by the use of additional Canadian crude in Ontario markets and by the expansion of exports.

A decline in the foreign exchange value of the Canadian dollar after mid-summer increased the cost of imported crude and products. A rise in Canadian crude oil prices in the third quarter, though benefiting producers, further increased the cost of raw material to refiners.

Major expansion of natural gas processing and transportation facilities continued in 1961. This, together with large-scale exports, enabled industry to increase gas sales by 26% over 1960 levels. Continuing growth in the natural gas industry offers considerable promise for the future.

Financial

Shell of Canada's sales and other operating revenues rose 13% in 1961 to $278.1 million as compared with $245.2 million in 1960. Volumes of sales of crude oil, natural gas and refined products all reached record levels. Cash income was $13.9 million in 1961 as compared with $8.9 million in 1960.

Expense and amortization charges related to the company's substantial exploration and drilling program exceeded income from the production, refining and marketing operations by $11.8 million in 1961, as compared with $17.1 million in 1960. Marked improvement is expected in 1962 because of rising production of natural gas and liquid hydrocarbons.

Capital expenditures in 1961 totaled $55.5 million as compared with $46.0 million in 1960. This total for capital expenditures does not include $15.0 million in cash outlays made in 1961 for exploration activities, other than drilling, which were charged directly against income. Cash outlays for similar exploration activities in 1960 amounted to $15.2 million.

Analysis of expenditures by function is shown in the following table:

	1961	1960
	(Millions)	
Drilling and production	$25.0	$32.7
Natural gas processing plants	22.4	1.6
Refineries and chemical plants	2.0	5.8
Transportation, marketing, and miscellaneous facilities	6.1	5.9
Total capital expenditures	55.5	46.0
Exploration expenses	15.0	15.2
TOTAL	$70.5	$61.2

To enable Shell of Canada to make these expenditures and meet other working capital requirements, Shell Oil Company made advances to Shell of Canada during 1961 of $27.5 million [U.S.]. Advances in equal amounts were made by Canadian Shell Limited. The balance of cash required was generated within Shell of Canada's business.

In 1960 Shell of Canada acquired all the voting shares of North Star Oil Limited, as stated in the Annual Report for 1960. In 1961, as a final step in the integration of the two companies, holders of $23.3 million of North Star debentures accepted Shell of Canada debentures in exchange. This marked the first occasion on which Shell of Canada has made a public issue of securities. Preferred stock of North Star in the amount of $5.6 million was redeemed.

During 1961 a new data center was opened in Head Office in Toronto in which a wide range of clerical and technical functions are being centralized. Use of the modern high-speed computing equipment is expected to add materially to the efficiency of company operations.

Exploration and Production

Shell of Canada's exploration activity was carried on at a somewhat lower level through 1961. However, new highs were reached in the production of both crude oil and natural gas.

Three new gas fields discovered in 1961 will add substantially to the company's gas reserves. In the Harmattan Elkton field, new sour gas reserves were discovered in the Devonian reef formation. In northeastern British Columbia, gas was found on lands in which Shell holds a 25% interest in the Komie Lake area. The third discovery was on a structure seven miles west of Shell's Jumping Pound field.

During the year the company drilled or participated in the drilling of 29 net exploratory tests. Of these, 2 were successfully completed as oil wells, 3 as gas wells, and 24 were abandoned. A total of 74 net development wells were drilled, resulting in 48 oil wells, 13 gas wells, and 13 dry holes.

The development drilling program added substantially to Shell of Canada's net developed reserves which, at the end of 1961, stood at 170 million barrels of liquid hydrocarbons, 2.4 trillion cubic feet of natural gas, and 8 million long tons of sulphur.

The company's gross production of all liquid hydrocarbons increased 32% in 1961 and averaged 29,500 barrels per day, which increased Shell of Canada's share of industry production. The substantial increase resulted mainly from increased demand for medium gravity crude from Southeast Saskatchewan oil fields, and from intensified development drilling in Alberta.

Early in the year, Shell of Canada began to sell gas from its properties in the Homeglen-Rimbey field in Central Alberta and from the Nig Creek and Buick Creek fields in northeastern British Columbia.

Substantial expenditures during the year were directed towards the construction of gas-processing plants in preparation for large scale gas exports to the United States. Shell's Waterton gas-processing plant was nearing completion at year-end, with operation scheduled for early 1962. This plant is expected to produce 110 million cubic feet of gas, 7,800 barrels of liquids, and 1,300 long tons of sulphur per day. Shell of Canada also participated in the construction of a plant in the Wildcat Hills field and in an extension to the Carstairs plant. The Alberta-California gas pipe line, of which Shell of Canada is the largest single supplier, was completed in 1961 and commenced operation late in the year.

Although the full impact of the new plants coming on stream had not been realized at the year-end, natural gas sales had already shown marked improvement, averaging 78 million cubic feet per day in 1961, or 40% higher than in 1960. Sulphur production was 139 long tons per day in 1961.

In 1961 the company purchased the properties of Canadian Bishop Oil, Ltd. These are located principally in the Pembina field, Alberta.

Manufacturing

Shell of Canada's four refineries processed 33.0 million barrels of crude oil during 1961. This represented an increase of 1.1 million barrels over the 1960 level and the utilization of 89% of crude oil distilling capacity.

Revisions in the crude distillation and vacuum flashing plant at St. Boniface (Winnepeg) refinery increased the capacity to 16,200 barrels per day.

In June 1961 the company announced its intention to construct a 31,000 barrel-per-day refinery at Oakville, Ontario, about 20 miles west of Toronto. The refinery will include equipment for distillation, vacuum flashing, alkylation, hydrodesulphurization, catalytic cracking and reforming. Scheduled for completion in 1963, the refinery will operate on crude oil obtained by pipe line from western Canada.

Marketing

Volume of sales of refined products rose 5% in 1961 to a new high of 37.0 million barrels. On the other hand, price competition became more intense because of surplus product and capacity and the impact of new marketers.

With additions made in 1961, the number of retail outlets reached 3,922 at the year-end. The conversion to Shell identification of North Star retail outlets acquired in 1960 was virtually completed during 1961.

Revenues from sales of chemicals were considerably higher than in 1960, with agricultural chemicals showing the largest gain.

Personnel

At December 31, 1961, Shell of Canada and subsidiaries employed 4,566 people.

In November the Shell of Canada Board of Directors announced that Mr. W. M. V. Ash, President since 1948, was elected Chairman of the Board effective January 1, 1962, and continues as chief executive officer. Mr. Paul L. Kartzke, formerly Executive Vice President, was elected President. Mr. W. F. Mitchell, formerly with Shell of Canada and more recently with Shell International Chemical Company Limited in London, was elected Executive Vice President and will take charge of all marketing activities. Mr. C. A. Foster, Jr., Vice President-Marketing, will be leaving Shell of Canada to assume a position with Shell Oil Company in the United States.

Shell Oil Company and Subsidiary Companies

STATEMENT OF INCOME and EARNINGS EMPLOYED IN THE BUSINESS

	YEAR 1961	YEAR 1960*
REVENUES		
Sales and other operating revenue	$1,881,288,367	$1,827,831,707
Consumer excise and sales taxes	357,350,877	339,999,789
	2,238,639,244	2,167,831,496
Dividends, interest and other income	8,977,668	10,650,891
	2,247,616,912	2,178,482,387
COSTS AND EXPENSES		
Purchased crude oil, refined and manufactured products	742,855,460	702,929,572
Operating, selling and general expenses	717,947,512	690,098,122
Income, operating and consumer taxes (Note 2)	443,492,961	433,401,277
Depreciation, depletion, amortization and retirements, including dry holes	193,853,898	201,019,511
Interest on long term debt	9,108,869	6,445,806
	2,107,258,700	2,033,894,288
NET INCOME	140,358,212	144,588,099
EARNINGS EMPLOYED IN THE BUSINESS at beginning of year	932,191,645	854,234,251
	1,072,549,857	998,822,350
Cash dividends paid—$1.10 a share	66,635,985	66,630,705
EARNINGS EMPLOYED IN THE BUSINESS at end of year	$1,005,913,872	$ 932,191,645

*Restated for comparative purposes.

STATEMENT OF FINANCIAL CONDITION

Assets	DECEMBER 31, 1961	DECEMBER 31, 1960*
CURRENT ASSETS		
Cash	$ 44,090,718	$ 49,236,689
Short term securities, including U. S. Governments, at cost approximating market	119,788,469	69,181,522
Receivables and prepayments	281,008,336	238,735,449
Owing by affiliated companies	5,211,856	8,111,341
Inventories of crude oil and products (Note 3)	201,395,315	195,666,784
Materials and supplies, at average cost or less	31,346,659	38,237,700
TOTAL CURRENT ASSETS	682,841,353	599,169,485
INVESTMENTS, LONG TERM RECEIVABLES, ETC., on basis of cost (Note 4)	186,370,181	149,281,589
PROPERTIES, PLANT AND EQUIPMENT, at cost, less accumulated depreciation, depletion and amortization (Note 5)	1,207,022,979	1,136,893,357
	$2,076,234,513	$1,885,344,431
Liabilities and Shareholders' Investment		
CURRENT LIABILITIES		
Payables, accruals, etc.	$ 198,553,570	$ 165,775,457
Income, operating and consumer taxes	99,055,921	103,732,949
Owing to affiliated companies	3,787,876	6,465,754
Long term debt due within one year (Note 6)	2,550,000	6,302,000
TOTAL CURRENT LIABILITIES	303,947,367	282,276,160
LONG TERM DEBT (NOTE 6)	295,239,000	200,002,000
SHAREHOLDERS' INVESTMENT		
Common stock, authorized 80,000,000 shares at $1.00 par value, outstanding 60,579,768 shares (1960—60,573,368 shares) at stated value (Note 7)	227,156,530	227,150,130
Amount in excess of common stock stated value (Note 7)	243,977,744	243,724,496
Earnings employed in the business	1,005,913,872	932,191,645
TOTAL SHAREHOLDERS' INVESTMENT	1,477,048,146	1,403,066,271
	$2,076,234,513	$1,885,344,431

*Restated for comparative purposes.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

The financial statements include the accounts of all wholly owned subsidiary companies. Intercompany sales and profits of the companies consolidated have been eliminated in the statements to the extent considered practicable.

2. INCOME, OPERATING AND CONSUMER TAXES

	1961	*1960*
Consumer Taxes		
Excise and sales taxes on products sold	$357,350,877	$339,999,789
Operating Taxes		
Real and personal property	27,773,289	27,724,524
Oil and gas production	20,270,131	19,736,196
Social security	7,603,115	7,301,464
Other	10,698,469	8,873,531
	66,345,004	63,635,715
Income Taxes		
Federal and other	19,797,080	29,765,773
	$443,492,961	$433,401,277

3. INVENTORIES OF CRUDE OIL AND PRODUCTS

As in prior years, the policy has been followed during the year ended December 31, 1961, of charging monthly to cost of goods sold the highest of inventory carrying value, current cost of production, or purchases. The inventories of crude oil and products are carried at resulting average cost or market, whichever is lower.

4. INVESTMENTS, LONG TERM RECEIVABLES, ETC.

	December 31, 1961	*December 31, 1960*
Shell Oil Company of Canada, Limited, a 50% owned affiliate		
Capital stocks	$ 45,731,902	$ 45,731,902
Advances	105,950,000	78,450,000
	151,681,902	124,181,902
Other affiliated company	1,080,000	1,080,000
Other investments, long term receivables, etc.	33,608,279	24,019,687
	$186,370,181	$149,281,589

The Company's equity in the consolidated net assets of Shell Oil Company of Canada, Limited, as shown by the latter's accounts, exceeded the Company's investment in the stock of such affiliate by $13,745,526 at December 31, 1961 and $19,664,295 at December 31, 1960. At these dates such consolidated net assets were as follows (Canadian amounts expressed in U. S. currency on a dollar for dollar basis):

Current assets	$105,170,514	$ 95,011,851
Investments, long term receivables, etc.	17,274,805	16,699,288
Properties, plant and equipment, less reserves	267,072,084	239,915,554
Total assets	389,517,403	351,626,693
Less:		
Current liabilities	36,378,414	37,109,688
Long term debt	25,913,122	32,138,911
Advances by affiliated companies	208,271,011	151,585,699
Total liabilities	270,562,547	220,834,298
Consolidated net assets	$118,954,856	$130,792,395
Shell Oil Company's 50% interest	$ 59,477,428	$ 65,396,197

The equity in the consolidated net loss of Shell Oil Company of Canada, Limited for 1961 was $5,878,769 and $8,535,255 for 1960.

As noted on Page 4 of this Report, the Company is considering the distribution to its shareholders of its entire interest in Shell Oil Company of Canada, Limited.

5. PROPERTIES, PLANT AND EQUIPMENT

	December 31, 1961		
	GROSS BOOK VALUE	ACCUMULATED DEPRECIATION, ETC.	NET BOOK VALUE
		(Thousands of dollars)	
Production properties	$1,726,231	$1,028,380	$ 697,851
Oil refineries and chemical plants	861,877	592,754	269,123
Pipe lines and other transportation facilities	189,895	110,128	79,767
Marketing and miscellaneous facilities	314,544	154,262	160,282
Total	$3,092,547	$1,885,524	$1,207,023
Total December 31, 1960	$2,912,786	$1,775,893	$1,136,893

6. LONG TERM DEBT

	December 31, 1961
Shell Oil Company	
Twenty-five Year 2½% Debentures, due 1971, after deducting $5,458,000 of debentures held in treasury which are available for sale to the sinking fund agent	$ 76,139,000
4⅝% Sinking Fund Debentures, due 1986; sinking fund requirement begins in 1967	200,000,000
Shell Pipe Line Corporation	
3.50% notes payable to banks due 1962 to 1966	5,250,000
3.30% notes payable to banks and others due 1962 to 1967	6,000,000
4.50% note payable to bank due 1962 to 1966	6,400,000
4.50% note payable to bank due 1964	4,000,000
	297,789,000
Included in Current Liabilities as due within one year	2,550,000
	$295,239,000

Of the foregoing long term debt due after one year, $7,092,000 will be due in 1963, $11,550,000 in 1964, $7,550,000 in 1965 and $11,450,000 in 1966.

7. INCENTIVE STOCK OPTION PLAN

At December 31, 1961, 598,000 shares of the Company's authorized but unissued common stock were reserved under the Plan for sale to executives and key employees at not less than 95% of the fair market value at the date the option is granted. Generally, options may not be exercised within eighteen months of issuance and expire not later than ten years from date of grant.

At January 1, 1961, options to purchase 457,400 shares were outstanding, of which options for 435,400 shares were exercisable, and 147,000 shares were available for future options. During the year options were granted to buy 42,000 shares at $37.05 per share and 28,600 shares at $41.90 per share, options for 56,300 shares expired, and options for 6,400 shares were exercised at the option price of $40.57 per share or $259,648. Of this amount $6,400 was credited to common stock and $253,248 was credited to amount in excess of common stock stated value. At December 31, 1961, options to purchase 465,300 shares were outstanding, of which options for 382,700 shares were exercisable, and 132,700 shares were available for future options.

8. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1961, Shell Oil and subsidiary companies had long term leases and other contractual commitments expiring more than three years after that date covering service stations, office space, tankers and other facilities. For the year 1962, the minimum amounts payable (without reduction for related rental income) under such commitments are estimated at $37,000,000.

Shell Oil Company might be required under certain conditions to make payments under guaranty and other contractual arrangements entered into in connection with pipe lines and other facilities used for handling the Company's products. The contingent liability under such arrangements will not exceed $1,600,000 for 1962 and a total of $40,600,000 for years subsequent thereto.

None of the companies had any commitments or contingent liabilities which, in the judgment of the Management, would result in the sustaining of losses which would materially affect their financial positions.

Opinion of Independent Public Accountants

To the Shareholders of Shell Oil Company:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the financial position of Shell Oil Company and consolidated subsidiary companies at December 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

New York
February 28, 1962

TEN YEAR REVIEW OF STATISTICAL DATA

	1961	1960
FINANCIAL AND GENERAL (In thousands except where indicated by †)		
Sales and other operating revenue:		
Refined products and other operating revenue	$1,299,346	1,253,173
Chemical products	$ 213,876	229,457
Crude oil	$ 368,066	345,202
Total	$1,881,288	1,827,832
Net income	$ 140,358	144,588
Net income per share†*	$ 2.32	2.39
Cash dividends	$ 66,636	66,631
Cash dividends per share†*	$ 1.10	1.10
Cash income (net income plus write-offs)	$ 334,212	345,608
Dry hole costs	$ 23,795	28,973
Exploration expenses, other than drilling	$ 73,285	69,833
Consumer excise and sales taxes	$ 357,351	340,000
Income and operating taxes	$ 86,142	93,401
Capital expenditures	$ 269,914	284,041
Properties, plant and equipment (gross)	$3,092,547	2,912,786
Working capital (current assets less current liabilities)	$ 378,894	316,893
Long term debt	$ 295,239	200,002
Shareholders†	20,403	20,018
Shares outstanding	60,580	60,573
Employees†	35,586	38,290
Salaries, wages and employee benefits	$ 352,152	346,262
EXPLORATION AND PRODUCTION (Barrels in thousands)		
Gross crude oil produced (barrels)	138,817	135,420
Gross crude oil produced (daily average barrels)	380	370
Net crude oil produced (barrels):		
California	22,204	24,000
Illinois	2,342	2,341
Louisiana	43,620	40,562
Mississippi	2,850	2,566
Montana	7,760	7,264
New Mexico	4,887	5,677
Oklahoma	3,579	3,654
Texas	24,687	23,863
Utah	2,121	2,428
Other	5,597	4,801
Total	119,647	117,156
Net crude oil produced (daily average barrels)	328	320
Gross natural gas liquids produced (barrels)	12,828	12,372
Net natural gas liquids produced (barrels)	12,401	11,949
Gross natural gas produced (million cubic feet)	478,263	450,590
Net natural gas produced (million cubic feet)	412,005	389,384
Crude oil purchased (barrels)	218,544	198,732
Crude oil sold (barrels)	134,595	127,116
Wells drilled (net):		
Oil and gas	634	625
Dry holes	147	181
Total	781	806
Exploratory	99	137
Development	682	669
Total	781	806

* Per share outstanding at each year-end adjusted for stock dividends and splits.

Shell Oil Company and Subsidiary Companies

1959	1958	1957	1956	1955	1954	1953	1952
1,224,384	1,177,163	1,242,703	1,173,446	1,102,878	1,000,316	964,952	872,107
226,957	187,907	201,918	213,630	193,860	138,809	125,811	97,763
358,612	300,919	319,981	248,359	194,405	172,935	178,788	172,762
1,809,953	1,665,989	1,764,602	1,635,435	1,491,143	1,312,060	1,269,551	1,142,632
147,418	128,583	152,940	150,045	139,549	130,330	131,588	109,282
2.43	2.12	2.52	2.48	2.30	2.15	2.17	1.80
62,088	60,573	60,573	56,443	55,066	51,525	40,614	40,412
1.02½	1.00	1.00	.93	.91	.85	.67	.67
342,807	323,148	362,888	344,020	314,561	276,354	269,243	229,435
31,288	29,583	28,236	23,148	16,542	17,884	12,032	11,854
64,683	61,135	69,531	61,252	56,209	54,167	51,631	43,996
320,005	287,765	282,466	256,192	225,905	210,028	203,490	176,568
98,948	66,214	89,662	114,372	116,715	100,995	102,112	89,730
280,073	223,082	265,635	234,646	271,347	236,940	237,712	206,141
2,713,970	2,516,309	2,377,477	2,230,652	2,056,286	1,825,159	1,641,020	1,464,891
299,119	299,738	293,765	287,253	231,255	178,580	191,695	205,855
133,478	143,342	166,087	197,408	201,457	137,118	143,205	149,307
19,730	19,307	19,685	19,727	19,025	18,669	17,647	17,563
60,573	30,287	30,286	30,286	27,533	27,480	13,740	13,471
38,217	38,572	40,465	39,903	38,845	35,275	34,660	33,583
341,567	325,352	325,814	300,906	271,739	237,146	222,081	200,307
133,428	126,771	133,879	127,804	116,579	111,681	119,068	109,605
366	347	367	349	319	306	326	299
25,346	26,426	28,170	29,426	29,697	33,422	35,298	30,537
2,358	2,892	2,707	2,300	2,182	2,321	2,911	3,414
35,350	30,452	33,190	28,483	23,352	19,883	21,598	20,034
3,039	1,428	132	37	34	37	31	24
6,274	7,166	6,962	4,491	1,583	919	724	238
6,617	6,536	5,954	6,192	5,729	4,949	4,496	3,482
3,961	4,570	5,335	5,921	6,394	5,454	6,464	7,002
24,773	22,613	25,654	27,336	26,219	24,978	27,604	27,355
3,079	3,080	181	92	136	4	—	—
4,507	4,942	7,625	7,039	6,255	5,727	5,142	4,013
115,304	110,105	115,910	111,317	101,581	97,694	104,268	96,099
316	302	318	304	278	268	286	263
11,669	11,708	11,918	12,442	12,054	11,472	10,827	10,539
11,310	11,278	11,481	11,932	11,551	10,999	10,467	10,171
358,764	323,438	325,526	318,932	299,894	280,594	262,556	216,164
311,512	281,130	280,147	277,792	261,795	243,336	228,790	188,612
194,948	164,498	178,348	162,624	144,415	126,464	117,173	113,331
130,130	101,232	104,357	88,428	68,883	60,761	64,731	66,086
652	604	788	680	597	671	733	645
192	178	245	216	182	184	135	118
844	782	1,033	896	779	855	868	763
167	136	221	244	185	192	149	94
677	646	812	652	594	663	719	669
844	782	1,033	896	779	855	868	763

TEN YEAR REVIEW OF STATISTICAL DATA

	1961	1960
EXPLORATION AND PRODUCTION continued		
Oil and gas wells producing or capable of producing (net):		
Entire working interest	**10,640**	9,903
Partial interest	**2,437**	2,193
Total	**13,077**	12,096
Acreage (net—in thousands):		
Producing	**656**	599
Non-producing	**14,164**	13,395
Total	**14,820**	13,994
Natural gasoline plants:		
Wholly-owned	**10**	11
Partially-owned	**21**	21
Total	**31**	32
MANUFACTURING (Barrels and tons in thousands)		
Crude oil distilling capacity (daily average barrels):		
Anacortes	**55**	55
Houston	**128**	128
Martinez	**55**	55
Norco	**102**	102
Wilmington	**68**	68
Wood River	**186**	186
Total	**594**	594
Crude oil intake to distilling units (barrels)	**190,433**	183,377
Crude oil intake to distilling units (daily average barrels)	**522**	501
Refined products manufactured (barrels):		
Gasoline	**103,343**	101,045
Distillates	**58,288**	51,255
Residuals	**21,315**	21,264
All other products	**28,458**	29,125
Total	**211,404**	202,689
Gasoline purchased (barrels)	**10,543**	11,223
Distillates and residuals purchased (barrels)	**7,241**	10,425
Chemical products manufactured (short tons)	**976**	1,123
MARKETING (Barrels and tons in thousands)		
Refined products sold (barrels):		
Gasoline	**109,150**	104,691
Distillates	**62,589**	55,107
Residuals	**24,180**	24,926
All other products	**27,175**	26,594
Total	**223,094**	211,318
Refined products sold (daily average barrels)	**611**	577
Chemical products sold (short tons)	**992**	1,040
Marketing facilities:		
Bulk distributing plants (leased and owned)	**744**	771
Retail outlets (leased and owned)	**9,900**	9,500
Retail outlets (other)	**13,000**	13,400
TRANSPORTATION		
Trunk pipe line mileage—crude oil (incl. partially-owned)	**5,984**	5,988
Trunk pipe line mileage—products (incl. partially-owned)	**4,998**	4,725
Crude oil gathering pipe line mileage (incl. partially-owned)	**2,315**	2,119
Crude oil transported by pipe lines (million barrel miles)	**94,213**	90,632
Products transported by pipe lines (million barrel miles)	**21,730**	21,215
Storage facilities (thousands of barrels)	**101,773**	99,295

Shell Oil Company and Subsidiary Companies

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1959	1958	1957	1956	1955	1954	1953	1952
9,647	9,521	9,390	9,270	8,741	8,388	7,955	7,613
2,178	1,853	1,782	1,413	1,293	1,209	1,132	1,037
11,825	11,374	11,172	10,683	10,034	9,597	9,087	8,650
552	520	479	459	425	388	391	329
12,509	11,675	14,487	21,537	20,944	21,713	18,959	18,063
13,061	12,195	14,966	21,996	21,369	22,101	19,350	18,392
10	11	11	11	11	12	14	14
22	20	21	20	19	18	16	12
32	31	32	31	30	30	30	26
55	55	55	50	50	—	—	—
128	125	125	125	125	125	125	125
55	55	55	55	55	55	55	55
102	95	95	95	82	75	50	50
68	79	79	79	79	79	79	64
186	175	175	175	170	170	170	135
594	584	584	579	561	504	479	429
178,760	169,279	184,555	182,184	168,896	157,262	150,371	139,632
490	464	506	498	463	431	412	382
99,058	96,009	100,223	98,271	91,631	84,220	81,375	74,005
46,910	40,951	47,322	49,067	43,180	39,701	36,803	37,539
22,611	22,775	30,285	29,634	28,710	30,632	28,961	25,082
24,901	25,087	25,143	23,851	24,359	21,882	23,833	19,876
193,480	184,822	202,973	200,823	187,880	176,435	170,972	156,502
12,692	11,501	9,698	8,466	7,840	11,407	14,160	11,243
7,947	6,129	5,249	7,005	5,162	3,220	6,870	9,885
1,027	926	1,007	970	891	720	637	546
106,792	101,974	101,748	98,715	98,135	91,278	88,528	81,023
49,125	46,009	47,065	48,178	45,319	40,891	38,905	40,318
23,322	26,324	30,082	31,176	33,255	27,589	27,587	29,963
25,727	24,435	22,575	22,455	21,507	19,005	19,329	17,707
204,966	198,742	201,470	200,524	198,216	178,763	174,349	169,011
562	544	552	548	543	490	478	462
1,070	935	1,043	1,001	943	732	688	617
773	784	786	790	821	803	807	826
9,000	8,800	8,400	8,300	8,000	7,500	7,100	7,100
14,200	14,600	14,800	14,700	15,100	15,200	15,600	15,400
6,081	5,959	5,304	5,579	5,331	4,828	4,788	4,644
4,720	4,718	4,670	4,670	4,343	4,023	3,986	3,587
2,154	2,107	2,040	2,246	2,083	1,978	1,932	1,821
86,368	78,495	80,804	77,766	73,507	68,578	65,747	69,460
20,795	20,116	21,317	20,819	19,941	19,170	17,187	14,626
95,276	94,057	93,970	91,852	89,285	85,404	80,153	77,347

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